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MONTANA STATE LOTTERY
REPORT ON AUDIT OF FINANCIAL STATEMENTS

June 30, 1988

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MONTANA STATE LOTTERY
REPORT ON AUDIT OF FINANCIAL STATEMENTS
June 30, 1988

JUNKERMIER, CLARK, CAMPANELLA, STEVENS P.C.
Certified Public Accountants



MONTANA STATE LOTTERY
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STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

DEPUTY LEGISLATIVE AUDITORS:

MARY BRYSON
Operations and EDP Audit

JAMES GILLETT
Financial-Compliance Audit

JIM PELLEGRINI
Performance Audit

November 1988

The Legislative Audit Committee
of the Montana State Legislature:

Enclosed is the report on the audit of the Montana State Lottery Financial Audit for the year ended June 30, 1988.

The audit was conducted by Junkermier, Clark, Campanella, Stevens, P.C., under a contract between the firm and our office. The comments and recommendations contained in this report represent the views of the firm and not necessarily the Legislative Auditor.

The agency's written response to the report recommendations is included in the back of the audit report.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott A. Seacat".
Scott A. Seacat
Legislative Auditor

MONTANA STATE LOTTERY
Commission Members and Administrative Officials
June 30, 1988

<u>Commission Members</u>	<u>Residence</u>	<u>Term Expires</u>
Spencer Hegstad, Chairman	Dillon	January 1, 1990
Pat DeVries	Polson	January 1, 1991
Glenn Osborne	Great Falls	January 1, 1989
Jim Moore	Bozeman	January 1, 1990
Keith Colbo	Helena	January 1, 1989

Administrative Officials

Diana S. Dowling, Director
L. John Onstad, Security
Gerald J. LaChere, Operations
Nancy L. Goodspeed, Marketing

MONTANA STATE LOTTERY

INTRODUCTION

We performed a financial-compliance audit of the Montana State Lottery for the fiscal year ended June 30, 1988 and issued an opinion on such. The scope of our services is defined in our contract with the Office of Legislative Auditor, as supplemented by certain requirements included in the bidders information.

As a result of our audit, we have issued a management letter which includes certain required comments.

BACKGROUND

The Montana State Lottery was created in November 1986 by a referendum vote of the people of Montana. The "Montana State Lottery Act of 1985" appears as Chapter 669 of the 1985 Montana Session Laws. The general purpose is to allow lottery games in which the players purchase from the state, through the administration of the Montana State Lottery, a chance to win a prize. Disposition of revenue is 45% for prizes, 15% for operating expenses, 5% for commissions to sales agents and the remaining revenue to the Superintendent of Public Instruction for equalization aid to the retirement funds.



MONTANA STATE LOTTERY
SUMMARY OF RECOMMENDATIONS AND RESPONSES
June 30, 1988

RECOMMENDATION

Develop a method to estimate returned tickets.

RESPONSE

Concur.



JUNKERMIER, CLARK, CAMPANELLA, STEVENS PC

Certified Public Accountants

Montana Club Building • P. O. Box 1164 • Helena, Montana 59624 • (406) 442-6901

Ward F. Junkermier
George L. Campanella
Stone E. Paulson Jr.
Rick A. Frost
Robert E. Nebel
Joseph F. Shevin
Ronald A. Taylor
Kent A. Borgum
Terry L. Alborn
Bill Eidel
Walter J. Kera
Robert C. Loewen

OFFICES

600 Central Plaza, Suite 208
Great Falls, Montana 59401
406-761-2820

507 South West Higgins Avenue
Missoula, Montana 59801
406-549-4148

Commissioners Montana State Lottery Helena, Montana

In planning and performing our financial compliance audit of the financial statements of Montana State Lottery for the year ended June 30, 1988, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to the design or operation of the internal control structure that, in our judgment, could adversely affect the Montana State Lottery's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted no weaknesses we consider to be material.

The following are reportable conditions that are not believed to be material weaknesses.

CHANGE IN ACCOUNTING FOR RETURNED TICKETS

Generally accepted accounting principles require revenue recognition, when the right to return exists, to include estimates of the returned tickets as a reduction in revenue. In application of this principle, the Lottery staff must estimate the amount of tickets already sold to the retailer at fiscal year end and returned by the retailer in the subsequent fiscal year. The reasons for returned tickets would include: ending of a game, retailer closing business, retailer overstocked, retailer returning tickets in lieu of payment, and various other reasons. Absence of historical experience makes an estimate of returned tickets a very difficult job. An auditor or anyone else can calculate the actual returned ticket months after the fact, but this is of little value to timely prepared financial statements.

During our audit, we recommended that the Lottery staff adjust their financial statements to be in accordance with generally accepted accounting principles. They agreed and adjusted their financial statements to reflect actual returned tickets received approximately three months after year end for sales occurring prior to June 30, 1987 and 1988.

We recommend that the Lottery review their short one year history and develop a method to estimate the returned tickets on a timely basis so that their annual unaudited financial statements are in accordance with generally accepted accounting principles.

The following are comments on compliance with applicable state regulations. They are not considered reportable conditions as defined in the first three paragraphs.

COMPLIANCE WITH APPLICABLE STATE REGULATION

15% OPERATING EXPENSES - The Lottery, according to Section 23-5-1027(2), MCA, is allowed "up to 15% of gross revenue for operating expenses." Gross revenue includes ticket revenue, license fees, unclaimed prizes and any other sources. Commissions are not included in operating expenses.



The operating expenses using the accrual basis of accounting as reported in the Lottery financial statements are as follows:

Gross revenue	<u>\$21,793,481</u>	<u>100.00%</u>
Operating expenses, including interest expense, prizes, and commissions	14,310,639	65.66
Less: Prizes	(9,807,415)	(45.00)
Commissions	<u>(1,210,074)</u>	<u>(5.55)</u>
Operating expenses	<u>\$ 3,293,150</u>	<u>15.11%</u>

The legislative legal authorization ("appropriations") to incur obligations is enacted on a basis inconsistent with generally accepted accounting principles (GAAP). The budget basis differs from GAAP for encumbrances outstanding at fiscal year end, compensated absences, fixed assets, purchased inventory and nonbudgeted activities.

The operating expenses using the modified accrual method as determined by the state budgeting process are as follows:

Gross revenue	<u>\$21,793,481</u>	<u>100.00%</u>
Operating and interest expense	14,310,639	
Less: Prizes	(9,807,415)	
Commissions	(1,210,074)	
Amortization	(168,080)	
Depreciation	(107,912)	
Compensated absences accrual increase	(43,389)	
1987 operating budget	(87,707)	
Converting inventory to SBAS basis	(128,094)	
Add: Acquisition of fixed assets	55,295	
Payment on long-term debt	273,737	
Budgeted audit costs	<u>11,480</u>	
Operating expenses as defined by state budgeting process	<u>\$ 3,098,480</u>	<u>14.22%</u>

TRANSFERS TO STATE SUPERINTENDENT OF PUBLIC INSTRUCTION - The funds transferred to the State Superintendent of Public Instruction is defined as net revenue. Net revenue is gross revenue less prizes, commissions, and operating expenses. As explained earlier in this letter, the Lottery adjusted its accounting estimate for returned tickets. These returned tickets are tickets sold to the retailers before fiscal year end and returned by the retailers in the subsequent fiscal year. This change in accounting estimate was made and the financial statements as of June 30, 1988 reflect the changes. We concur with the changes. Due to the change, the July 21, 1988 payment to the State Superintendent of Public Instruction was \$138,680 more than needed. The total overpayment of \$139,435, which includes an additional \$755 for a telephone maintenance billing, will apply to the next quarterly payment.

FREE TICKET ACCOUNTING POLICY - The Lottery has accounted for free tickets as a reduction of revenue instead of increasing prize expenses and revenue. This policy was questioned in the Legislative Auditor's financial-compliance audit of the Department of Commerce for the two fiscal years ended June 30, 1987. It was recommended in that report that the Department recognize prize expense related to the free tickets.

The accounting profession has not issued any authoritative literature regarding this practice and the same policy was followed by the Lottery in the June 30, 1988 financial statements. The Lottery developed and consistently followed an accounting policy that has been followed by approximately half of the other state lotteries. Until authoritative literature is issued by the accounting profession, we see no need to change the policy.

OTHER COMPLIANCE - Other than the observations discussed above, the results of our tests indicate the Lottery has complied with those provisions of applicable state statutes and regulations that would have a material effect on the Lottery's financial statements. Nothing came to our attention that caused us to believe, that for the items not tested the Lottery was not in compliance with statutes and regulations that could have a material effect on the financial statements.

The following recommendation is structured to communicate future auditing profession changes and is not a recommendation based on the historical past requiring a Lottery response.

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COMMUNICATION WITH THOSE RESPONSIBLE FOR FINANCIAL REPORTING

The American Institute of Certified Public Accountants issued a new Statement of Auditing Standards, "Communication with Audit Committees", in April 1988 which focuses on the communication between an auditor and those in your entity who have responsibility for overseeing the financial reporting process. This does not preclude communication with management, but, requires the auditor to ensure that the commissioners or audit committee receive additional information regarding the scope and results of the audit that may assist in overseeing the financial reporting and disclosure process for which management is responsible. The matters to be communicated include:

1. Auditor's responsibility under generally accepted auditing standards.
2. Significant accounting policies.
3. Management judgments and accounting estimates.
4. Significant audit adjustments.
5. Other information in documents containing audited financial statements.
6. Disagreements with management.
7. Consultation with other accountants.
8. Major issues discussed with management prior to retention.
9. Difficulties encountered in performing the audit.
10. Reportable conditions that relate to an entity's internal control structure.

These communication requirements will be effective for your June 30, 1989 audit. We feel they can be valuable and recommend that you determine if this is something the full commission should be involved in or if an audit committee of the commission may be a more effective way to approach the communications.

We appreciate the opportunity to be of service to the Montana State Lottery. We would like to acknowledge the effort the Lottery has made in developing and becoming operational and would like to thank the Lottery staff for the excellent cooperation we received during our audit. We look forward to being of service to the Lottery in the future. This report is intended solely for the information and use of the commissioners, management and others within the administration of the Lottery.

Junkinier, Clark, Campanella, Stevens, PC

Helena, Montana
October 26, 1988



JUNKERMIER, CLARK, CAMPANELLA, STEVENS PC

Certified Public Accountants

Montana Club Building • P. O. Box 1164 • Helena, Montana 59624 • (406) 442-6901

Ward F. Junkermier
George L. Campanella
Stone E. Paulson, Jr.
Rick A. Frost
Robert E. Nebei
Joseph F. Shevin
Ronald A. Tavor
Kent A. Borgum
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Walter J. Kero
Robert C. Loewen

OFFICES

500 Central Plaza, Suite 208
Great Falls, Montana 59401
406-761-2820

507 South West Higgins Avenue
Missoula, Montana 59801
406-549-4148

Commissioners
Montana State Lottery
Helena, Montana

We have audited the accompanying balance sheets of Montana State Lottery as of June 30, 1988 and the related statements of revenue, expense and changes in retained earnings, and changes in financial position for the year then ended. These financial statements are the responsibility of the Lottery's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Montana State Lottery as of June 30, 1988 and the results of its operations, and changes in financial position for the year then ended in conformity with generally accepted accounting principles.

As described in Note 8 to the financial statements, the Lottery adjusted its accounting estimate for tickets returned from retailers after the fiscal year end.

Junkermier, Clark, Campanella, Stevens, PC

Helena, Montana
October 26, 1988

MONTANA STATE LOTTERY
 BALANCE SHEET
 June 30, 1988

ASSETS

CURRENT ASSETS

Cash on deposit with State Treasurer	\$3,788,451
Accounts receivable	222,300
Inventory	199,217
Prepaid expenses	22,098
Employee advances	<u>5,050</u>
	\$4,237,116

FIXED ASSETS

Computer, furniture and equipment	734,764
Computer software	<u>840,400</u>
	1,575,164
Less: accumulated depreciation and amortization	<u>(294,792)</u>
	<u>1,280,372</u>
	<u>\$5,517,488</u>

LIABILITIES AND FUND EQUITY

CURRENT LIABILITIES

Long-term debt due within one year	\$ 282,208
Accounts payable	50,652
Due to State Superintendent of Public Instruction	1,232,477
Due to other state agencies	88,936
Accrued compensated absences	74,705
Claimed prizes payable	2,350,180
Unclaimed estimated prize reserve	1,025,235
Allowance for ticket returns	<u>291,420</u>
	\$5,395,813

LONG-TERM DEBT, net of current portion

261,110

FUND EQUITY (DEFICIT)

Unrestricted retained earnings (deficit)	<u>(139,435)</u>
	<u>\$5,517,488</u>

See the accompanying accountants' report
 and the notes to financial statements.



MONTANA STATE LOTTERY
 STATEMENT OF REVENUE, EXPENSE AND CHANGES IN RETAINED EARNINGS
 Year Ended June 30, 1988

OPERATING REVENUE	
Ticket sales	\$21,787,581
License fees	<u>5,900</u>
	<u>\$21,793,481</u>
OPERATING EXPENSE	
Prizes	9,807,415
Retailer commissions	1,210,074
Cost of tickets sold	800,141
Personal services	977,415
Contracted services	186,586
Advertising	573,503
Amortization	168,080
Depreciation	107,912
Supplies and materials	55,119
Rent and utilities	101,598
Communications	88,863
Travel	58,078
Repairs and maintenance	72,198
Management service fees	74,800
Other	<u>10,835</u>
	<u>14,292,617</u>
NET OPERATING INCOME BEFORE NONOPERATING EXPENSE AND OPERATING TRANSFERS	7,500,864
NONOPERATING REVENUE (EXPENSE)	
Interest expense	(18,022)
Operating transfers to State Superintendent of Public Instruction	<u>(8,375,894)</u>
	<u>(8,393,916)</u>
NET INCOME (LOSS)	(893,052)
Reserved retained earnings at beginning of year for operating transfers	1,235,684
Less prior period adjustments	<u>(482,067)</u>
UNRESERVED RETAINED EARNINGS (DEFICIT) AT END OF YEAR	<u>\$ (139,435)</u>

See the accompanying accountants' report
 and the notes to financial statements.



MONTANA STATE LOTTERY
 STATEMENT OF CHANGES IN FINANCIAL POSITION - CASH BASIS
 Year Ended June 30, 1988

SOURCES OF CASH

Provided from operations	
Net operating income	\$ 7,500,864
Add (deduct) non-cash items	
Amortization and depreciation	275,992
Decrease (increase) in accounts receivable	3,252,527
Decrease (increase) in inventory	202,394
Decrease (increase) in prepaid expense	(13,527)
Decrease (increase) in employee advances	(4,770)
Increase (decrease) in accounts payable	(952,215)
Increase (decrease) in due to State Superintendent of Public Instruction	1,232,477
Increase (decrease) in due to other state agencies	(2,928)
Increase (decrease) in compensated absences	43,389
Increase (decrease) in claimed prizes payable	2,350,180
Increase (decrease) in unclaimed estimated prize reserve	391,987
Increase (decrease) in allowance for ticket returns	<u>(731,017)</u>
Cash provided from operations before nonoperating expenses	\$13,545,353
Interest expense	(18,022)
Operating transfers out	<u>(8,375,894)</u>
Cash provided by operations	5,151,437

USES OF CASH

Acquisition of fixed assets	55,295
Payment of long-term debt	273,737
Payment of loan to general fund	<u>1,230,000</u>
	<u>1,559,032</u>
Increase in cash	3,592,405
Cash at beginning of year	<u>196,046</u>
CASH AT END OF YEAR	<u>\$ 3,788,451</u>

See the accompanying accountants' report
 and the notes to financial statements.

MONTANA STATE LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 1988

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization:

The Montana State Lottery was created in November 1986 by a referendum vote of the people of Montana. Section 23-5-1001, Montana Code Annotated (MCA) establishes the provision of the code under which the Montana State Lottery operates. The Montana Lottery is operated by a five member commission consisting of Montana residents appointed by the Governor. The Commission, by law, has the power to operate a state lottery, determine the types and forms of lottery games, set the ticket price, number and size of prizes, conduct lottery drawings, enter into agreements to offer regional lottery games and prepare financial reports.

The Lottery, a division within the Montana Department of Commerce, is considered a component unit of the oversight unit known as the State of Montana.

Disposition of revenue is 45% for prizes, 15% for operating expenses, 5% for commissions to sales agent and the remaining revenue to the State Superintendent of Public Instruction for equalization aid to the retirement funds.

The State of Montana provides certain services to the Lottery covering: central payroll, accounting, self-insurance, communication, motor pool and various other services. The costs charged to the Lottery for these services are reflected in the expenses.

Basis of Accounting:

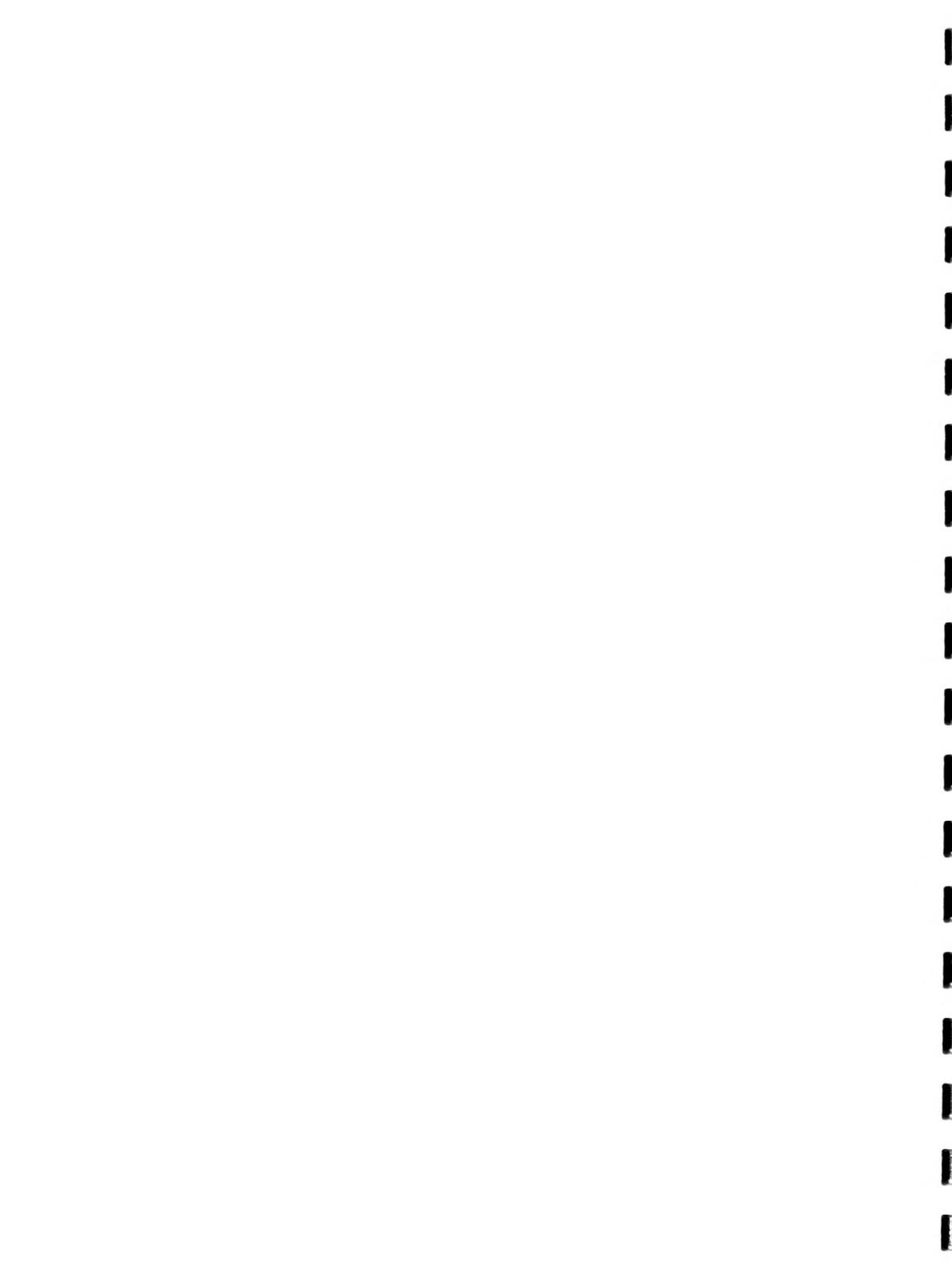
The Lottery utilizes the accrual basis of accounting and is classified as an enterprise fund of the governmental proprietary fund type. Enterprise funds account for operations: a) financed and operated similar to private business enterprises, where the intent of the Legislature is that costs are to be financed or recovered primarily through user charges, or b) where the Legislature has decided that periodic determination of revenue earned, expenses incurred or net income is appropriate.

Revenue Recognition:

Sales of lottery instant tickets are made to licensed retailers, who in turn sell the tickets to the public. Retailers receive a 5% commission. Revenue is recognized when the tickets are delivered to the retailers. Tickets not sold by the retailer may be returned to the Lottery for credit. Sales are reduced for estimated ticket returns.

Prizes:

Prize expense is recognized based on the predetermined prize structure for each game. Free tickets are recorded as a reduction in revenue and not as prize expense.



MONTANA STATE LOTTERY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 1988

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory:

Inventories consist of tickets and supplies. Ticket inventory includes lottery tickets stored in the warehouse and with marketing representatives. The tickets are carried at cost using the specific identification method. Tickets are charged to cost of sales when sold and unsold tickets are charged to cost of sales upon the end or cancellation of a game.

Supply inventory is carried at cost and expensed as used.

Fixed Assets:

Fixed assets are recorded at cost and depreciation or amortization is computed using the straight-line basis over the following estimated useful lives:

Computer	6 years
Software	5 years
Vehicles	4 years
Furniture and equipment	6 - 10 years

Accounts Receivable:

Accounts receivable represent amounts due the Lottery for purchased tickets. These amounts are electronically transferred within 7 to 14 days of ticket receipt. Bad debts are nominal and no allowance for doubtful accounts has been established.

Compensated Absences:

State employees earn vacation leave ranging from 15 to 24 days per year depending on the individuals years of service. Vacation leave may be accumulated to not exceed 2 times the maximum annual leave. Sick leave is earned at 12 days a year with no maximum accumulation. Upon retirement or termination, an employee is paid 100% for unused vacation and 25% for unused sick leave.

2. CASH ON DEPOSIT WITH STATE TREASURER

Cash on deposit with State Treasurer is part of pooled cash in the state treasury which is not separately identifiable as to specific types of securities. See the statewide audit for the level of risk associated with the cash and cash equivalents. Interest earned on these funds are General Fund earnings and not reflected in the Lottery's financial records.



MONTANA STATE LOTTERY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 1988

3. LONG-TERM DEBTS

Long-term debts consist of the following:

Installment purchase of Instant Lottery System software payable in monthly payments of \$23,344 including no interest through May 1990.	\$ 536,922
Lease purchase of copier payable in monthly payments of \$249 including interest at 16.7% interest through February 1991.	<u>6,396</u>
Less portion due within one year	<u>543,318</u>
Long-term portion	<u><u>282,208</u></u>
	<u><u>\$ 261,110</u></u>

The following is a summary of maturities due on long-term debt as of June 30, 1988:

Fiscal Years ended June 30	
1989	\$ 282,208
1990	259,237
1991	<u>1,873</u>
	<u><u>\$ 543,318</u></u>

4. OBLIGATION TO TRANSFER FUNDS TO STATE SUPERINTENDENT OF PUBLIC INSTRUCTION

The remaining portion of gross revenue not used for payment of prizes, commissions, and operating expenses is transferred quarterly from the Lottery to the State Superintendent of Public Instruction for distribution as equalization aid to retirement funds. At June 30, 1988, \$1,232,477 was payable to the State Superintendent of Public Instruction. Operating transfers of \$8,375,894 were reported during the fiscal year ended June 30, 1988.

5. LEASE COMMITMENTS

The Lottery has a lease for office and warehouse space in Helena, Montana. Lease expense included in the operating expenses is \$81,600 for the fiscal year ended June 30, 1988. Minimum future lease payments, under all non-cancellable leases, are as follows:

Fiscal Years Ended June 30	
1989	\$ 81,600
1990	81,600
1991	81,600
1992	<u>54,400</u>
	<u><u>\$ 299,200</u></u>



MONTANA STATE LOTTERY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 1988

6. EMPLOYEE RETIREMENT SYSTEM

The Lottery and its employees make contributions to the Montana Public Employees Retirement System (PERS) defined benefit plan. The Lottery is required to contribute for full time employees at the rate of 6.417% of annual compensation under state statute. Employees are required to contribute 6% of annual compensation. Part-time employees have an option to belong to the retirement plan, depending upon hours worked. The Lottery contributions were \$46,553 for the year ended June 30, 1988. The Montana Public Employees' Retirement System does not segregate financial information for each participating entity. Therefore, the required actuarial information related to the Lottery is not available.

7. SUBSEQUENT EVENTS

Prize annuities - On September 26, 1988, the Lottery purchased annuities for the winners of prizes that are paid on an installment basis. The purchase was finalized at a discount rate of 49.51%. In the event of default, the Lottery will be contingently liable for the remaining prize payments.

Payment to State Superintendent of Public Instruction - On July 21, 1988, the Lottery made a quarterly payment in the amount of \$1,232,477 to the State Superintendent of Public Instruction. Due to the changes discussed in footnote 8, the payment was \$138,680 more than needed. The overpayment will apply to the next quarterly payment.

On-line plans - The Lottery plans to begin on-line lottery games during the next fiscal year. Lottery staff are currently drafting a request-for-proposal for computer equipment and professional services related to the start of these games.

8. CHANGE IN ACCOUNTING ESTIMATES AND PRIOR PERIOD ADJUSTMENT

The Lottery adjusted its accounting estimate for recognizing revenue to include estimates of returned tickets as a reduction in revenue in the year the ticket was sold. In its first period of operation ending June 30, 1987, the returned tickets were not taken into consideration in reporting revenue due to the absence of a historical perspective regarding the future returned tickets. The effect of the change is recorded as a reduction in retained earnings in the amount of \$483,079 in order that the June 30, 1988 financial statements can be presented in accordance with generally accepted accounting principles. This reduction in retained earnings is offset by \$1,012 for additional small corrections of errors.

MONTANA STATE LOTTERY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 1988

9. CONTRACTUAL ARRANGEMENTS

Tickets - The Lottery has signed agreements to purchase instant game tickets from Scientific Games, Inc., through March 9, 1989. This contract may be terminated by the Lottery with proper notification to Scientific Games, Inc.

Computer Hardware and Software Maintenance - The Lottery has signed an agreement for computer hardware and software maintenance from Stratus Computer, Inc. for \$4,433 per month.

10. GAMES

Currently, the Lottery games are instant ticket games. These games provide players the opportunity to win instantly by scratching a latex covering to reveal a prize. Players also have another chance to win by submitting five non-winning tickets for the Big Spin drawing.





Ted Schwinden
Governor

Diana S. Dowling
Director

Gerald J. LaChore
Operations
Nancy L. Goodspeed
Marketing
L. John Onstad
Security

2525 N. Montana
Helena, MT 59601-0517
(406) 444-LU

November 14, 1988

Mr. Rick Frost
Junkermier, Clark, Campanella, Stevens P.C.
Box 1164
Helena MT 59624

Dear Mr. Frost:

Enclosed is our response to your report on the financial audit of the Montana State Lottery for the year ended June 30, 1988.

We enjoyed the good working relationship with you and your staff in completing the audit. We also appreciated your positive attitude, professional manner, and high level of competence exhibited during the audit. Because of these attributes, we found the audit process to be extremely beneficial and helpful to us.

We look forward to working with you in the future.

Sincerely,

Diana S. Dowling
Diana S. Dowling
Director, Montana Lottery

Enc

Montana Lottery Commission Members

Spencer H. Hustedt, Chairman
Dillon

Keith Colbo
Helena

Pat O'Neil
Polson

Jim Moore
Bozeman

John C. Clegg
Billings



MONTANA STATE LOTTERY
RESPONSE TO AUDIT RECOMMENDATION

RECOMMENDATION:

We recommend that the Montana Lottery develop a method to estimate returned tickets in accordance with generally accepted accounting principles.

RESPONSE:

The Montana Lottery concurs with the recommendation.

